LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6127 **DATE PREPARED:** Nov 20, 2000
BILL NUMBER: SB 62 **BILL AMENDED:**

SUBJECT: Income Tax Credit for Inventory Taxes.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a credit against a taxpayer's state tax liability for property taxes paid on inventory. It provides that the credit is initially equal to 33% of property taxes paid on inventory. The credit percentage increases over three years until the credit may be claimed for 100% of property taxes paid on inventory.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional administrative expenses associated with the revision of tax forms, instructions, computer programs, and compliance. However, the Department should be able to absorb these costs given its current resources.

Explanation of State Revenues: *Estimation Issues*: In estimating the impact of this bill, special attention was given to the impending real property reassessment. The final rules on real property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. Reassessment will shift some of the property tax burden from personal property owners to real property owners. Due to the uncertainty surrounding the next reassessment and the amount of the shifts, this analysis projects the cost of the credit within a range, using a small shift and a large shift. The smaller total assessed value increase of 25% was based on previous Indiana reassessments while the larger total assessed value increase of 80% was based on the estimated impact of reassessing property using a market value approach. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled $402 M in CY 1999. The 1998 pay 1999 inventory assessed value was $4.5 B and has grown at an average annual rate of 4.9% over the last five years. The statewide net average property tax rate was $8.5549 per $100 AV in CY 1999 and $8.6955 per $100 AV in CY 2000.

Fiscal Impact: Future inventory assessed values were projected based on historical data and were then reduced to account for credits. Future average net property tax rates were also estimated. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 2% per year in non-reassessment years. An estimate of the future net property tax on inventory was then computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates.

The applied percentages of tax credits under this proposal and corresponding tax years are identified below along with the estimated revenue loss for the respective fiscal years.

Property Tax Year	% Credit	Estimated Credit	State Fiscal Year of Impact
2001	33%	$149 M	FY 2002
2002	67%	$322 M - $324 M	FY 2003
2003	100%	$289 M - $416 M	FY 2004

Although this analysis assumes that reassessment will be effective for property taxes paid in 2003, further legal action could delay the effective date. For this reason, the cost of the credit was also estimated assuming that reassessment would not take place. Without reassessment, the cost of the credit under this bill could be as high as $324 M in FY 2003 and $517 M in FY 2004.

Based on the estimated growth rates of inventory assessed value and net property tax rates, the cost of the credit under both the "2003 reassessment" and the "no reassessment" assumptions is estimated to grow at about 6% to 7% per year after FY 2004.

The credit may be taken against a taxpayer's Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Insurance Premium Tax, or Financial Institutions Tax liability. If the amount of the credit exceeds the taxpayer's liability, the excess credit may be carried forward in subsequent years. A taxpayer is not entitled to a carryback or a refund of any unused credit. If a pass through entity does not have income tax liability, the credit may be taken by shareholders or partners in proportion to their distributive income from the pass through entity.

Revenue from the taxes listed above is deposited in both the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would not affect local revenues.

State Agencies Affected: Department of State Revenue, State Tax Board.

Local Agencies Affected:

Information Sources: State Board of Tax Commissioners, Property Tax Analysis, various years; Local Government Database.